Proposed Rule Change by Philadelphia Stock Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial ✔ Amendment Withdrawal

Section 19(b)(2) ✔ Section 19(b)(3)(A) Section 19(b)(3)(B)

Rule

☑ 19b-4(f)(1) ☐ 19b-4(f)(4)

☐ 19b-4(f)(2) ☐ 19b-4(f)(5)

☐ 19b-4(f)(3) ✔ ☐ 19b-4(f)(6)

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule change relating to quoting obligations in long-term options.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Richard Last Name Rudolph

Title Vice President and Counsel

E-mail Richard.Rudolph@phlx.com

Telephone (215) 496-5074 Fax (215) 496-6729

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 04/24/2007

By Richard S. Rudolph

(Name)

Vice President and Counsel

(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.
| Exhibit 1 - Notice of Proposed Rule Change | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1995 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR- [SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| Add | Remove | View |

| Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications | Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. |
| Add | Remove | View |

| Exhibit 3 - Form, Report, or Questionnaire | Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. |
| Add | Remove | View |

| Exhibit 4 - Marked Copies | The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working. |
| Add | Remove | View |

| Exhibit 5 - Proposed Rule Text | The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item 1 and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change. |
| Add | Remove | View |

| Partial Amendment | If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions. |
| Add | Remove | View |
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4 thereunder, proposes to adopt, on a permanent basis, Rule 1014(b)(ii)(D)(4), which currently states that Streaming Quote Traders ("SQTs"), Remote Streaming Quote Traders ("RSQTs"), and SQTs and RSQTs that receive Directed Orders ("DSQTs" and "DRSQTs" respectively) are deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Accordingly, the obligations to quote continuous, two-sided markets described in Rule 1014(b)(ii)(D) currently do not apply to SQTs, RSQTs, DSQTs and DRSQTs respecting series with an expiration of nine months or greater. The Exchange originally adopted the rule on a six-month pilot basis (the “pilot”). The pilot is scheduled to expire April 24, 2007.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

---


3. An SQT is an Exchange Registered Options Trader ("ROT") who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. [See Exchange Rule 1014(b)(ii)(A).](#)

4. An RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. [See Exchange Rule 1014(b)(ii)(B).](#)

5. The term “Directed Order” means any customer order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider. [See Exchange Rule 1080(l)(1)(A).](#)

Brackets indicate deletions; underlining indicates new text.

**Obligations and Restrictions Applicable to Specialists and Registered Options Traders**

**Rule 1014.** (a) No change.

(b) ROT. (i) No change.

(ii) (A) – (C) No change.

(D) Market Making Obligations Applicable in Streaming Quote Options.

(1) – (3) No change.

(4) Notwithstanding the foregoing, [for a six-month period beginning on the date of approval of this sub-paragraph by the Securities and Exchange Commission,] SQTs, DSQTs, RSQTs and DRSQTs shall be deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Accordingly, the obligation to quote continuous, two-sided markets [market making obligations] set forth in this rule shall not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting series with an expiration of nine months or greater.

(E) No change.

(c) – (h) No change.

Commentary: No change.

2. **Procedures of the Self-Regulatory Organization**

   The Exchange’s Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission (“SEC” or “Commission”) on March 19, 2007.

   Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074, or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.
3. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

   a. **Purpose**

      The purpose of the proposed rule change is to adopt Rule 1014(b)(ii)(D)(4) on a permanent basis in order to continue to mitigate the Exchange’s quote traffic by relaxing the quoting obligations applicable to SQTs, RSQTs, DSQTs and DRSQTs, thereby reducing the number of quotations required to be submitted on the Exchange.

      The pilot is part of an overall strategy to mitigate options quote traffic on the Exchange, under which SQTs, RSQTs, DSQTs and DRSQTs are deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Such traders are deemed not to be assigned in any option series until the time to expiration for an option series is less than nine months. The effect of this is to relax their quoting obligations, and ultimately the number of quotes they are required to submit, because the continuous quoting obligations described in Rule 1014(b)(ii)(D)(1) apply only to those options in which they are assigned.

   b. **Statutory Basis**

      The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, by relaxing the quoting

---


requirements in option series with an expiration greater than nine months, thereby reducing the number of options quotations required to be submitted, which should enable the Exchange to mitigate quote traffic.

4. **Self-Regulatory Organization’s Statement on Burden on Competition**

The Phlx does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

5. **Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Commission action.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^9\) and Rule 19b-4(f)(6) thereunder.\(^10\)

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits

---


the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange is requesting that the Commission waive the 30-day operative delay and the five-day pre-filing notice requirement, as specified in Rule 19b-4(f)(6)(iii), and designate the proposed rule change immediately operative. The Exchange believes that waiving the 30-day operative delay and the five-day pre-filing notice requirement is consistent with the protection of investors and the public interest. A waiver of the 30-day operative delay and the five-day pre-filing notice requirement will ensure the continuity of the pilot rule, which is scheduled to expire April 24, 2007, on a permanent basis.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-36)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Quoting
Obligations in Long Term Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),1 and
Rule 19b-42 thereunder, notice is hereby given that on ______________________ 2007,
the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities
and Exchange Commission (“SEC” or “Commission”) the proposed rule change as
described in Items I, II, and III, below, which Items have been prepared by the Phlx. The
Commission is publishing this notice to solicit comments on the proposed rule change
from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the
Proposed Rule Change

The Phlx, pursuant to Section 19(b)(1) of the Act3 and Rule 19b-4 thereunder,4
proposes to adopt, on a permanent basis, Rule 1014(b)(ii)(D)(4), which currently states
that Streaming Quote Traders (“SQTs”),5 Remote Streaming Quote Traders (“RSQTs”),6

---

5 An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the
Exchange to generate and submit option quotations electronically through AUTOM in eligible options to
which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically
6 An RSQT is an ROT that is a member or member organization with no physical trading floor presence
who has received permission from the Exchange to generate and submit option quotations electronically

and SQTs and RSQTs that receive Directed Orders⁷ (“DSQTs” and “DRSQTs” respectively) are deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Accordingly, the obligations to quote continuous, two-sided markets described in Rule 1014(b)(ii)(D) currently do not apply to SQTs, RSQTs, DSQTs and DRSQTs respecting series with an expiration of nine months or greater. The Exchange originally adopted the rule on a six-month pilot basis (the “pilot”).⁸ The pilot is scheduled to expire April 24, 2007. The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text.

Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a) No change.

(b) ROT. (i) No change.

(ii) (A) – (C) No change.

(D) Market Making Obligations Applicable in Streaming Quote Options.

(1) – (3) No change.

(4) Notwithstanding the foregoing, [for a six-month period beginning on the date of approval of this sub-paragraph by the Securities and Exchange Commission,] SQTs, DSQTs, RSQTs and DRSQTs shall be deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Accordingly, the obligation to quote continuous, two-sided markets [market making obligations] set forth in this rule shall

---

⁷ The term “Directed Order” means any customer order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider. See Exchange Rule 1080(l)(1)(A).

not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting series with an expiration of nine months or greater.

(E) No change.

(c) – (h) No change.

Commentary: No change.

II. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

1. **Purpose**

The purpose of the proposed rule change is to adopt Rule 1014(b)(ii)(D)(4) on a permanent basis in order to continue to mitigate the Exchange’s quote traffic by relaxing the quoting obligations applicable to SQTs, RSQTs, DSQTs and DRSQTs, thereby reducing the number of quotations required to be submitted on the Exchange.

The pilot is part of an overall strategy to mitigate options quote traffic on the Exchange, under which SQTs, RSQTs, DSQTs and DRSQTs are deemed not to be assigned in any option series until the time to expiration for such series is less than nine months. Such traders are deemed not to be assigned in any option series until the time to expiration for an option series is less than nine months. The effect of this is to relax their quoting obligations, and ultimately the number of quotes they are required to submit,
because the continuous quoting obligations described in Rule 1014(b)(ii)(D)(1) apply only to those options in which they are assigned.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^9\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^10\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, by relaxing the quoting requirements in option series with an expiration greater than nine months, thereby reducing the number of options quotations required to be submitted, which should enable the Exchange to mitigate quote traffic.

**B. Self-Regulatory Organization’s Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

**C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were either solicited or received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on

---


competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^{11}\) and Rule 19b-4(f)(6) thereunder.\(^{12}\)

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange is requesting that the Commission waive the 30-day operative delay and the five-day pre-filing notice requirement, as specified in Rule 19b-4(f)(6)(iii), and designate the proposed rule change immediately operative. The Exchange believes that waiving the 30-day operative delay and the five-day pre-filing notice requirement is consistent with the protection of investors and the public interest. A waiver of the 30-day operative delay and the five-day pre-filing notice requirement will ensure the continuity of the pilot rule, which is scheduled to expire April 24, 2007, on a permanent basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:


Electronic comments:

- Use the Commission’s Internet comment form
  
  [http://www.sec.gov/rules/sro.shtml]; or
  
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2007-36 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2007-36. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site [http://www.sec.gov/rules/sro.shtml]. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit
personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2007-36 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.\textsuperscript{13}

Nancy M. Morris
Secretary

\textsuperscript{13} 17 CFR 200.30-3(a)(12).